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Introduction

U.S. boards of directors have come under repeated fire for what some observers call a lackluster record in corporate governance. The body of evidence collected in the last decade, however, suggests otherwise. U.S. corporations have emerged from a decade of drastic economic change and widespread corporate restructuring. And their boards matured during those years, gaining more power and greater independence in the face of these challenges.

Clearly, the balance of power between the CEO and the board has shifted. The CEO no longer reigns as an absolute monarch, expecting corporate policy to be rubber-stamped. Rather, directors have become stronger and more independent partners in corporate leadership.

And it appears that many CEOs are welcoming more independent boards. Most of the companies polled in our study this year—93 percent—say a strong board gives them a strategic advantage. The majority of these CEOs, who also serve as chairmen in 79 percent of the corporations surveyed, believe boards should address fundamental questions ranging from corporate survival to strategic planning.

In addition, boards have become more directly involved with management succession than at any time in the past. Planning for a new generation of senior managers poses one of the most difficult problems for CEOs, pointing as it does to their own mortality. Contrary to popular perception, however, nearly three-quarters of companies surveyed this year report that they have a management succession plan in place. And nearly two-thirds of those companies report that their plan has been developed with the board of directors. In our opinion, this represents a major shift from a decade ago when succession planning was in its infancy and the process typically ignored.

A Board Agenda for the 1990s

The results of the Seventeenth Annual Board of Directors Study completed by Korn/Ferry spotlight further trends in the evolution of the board. The study polled CEOs at the country's largest corporations and financial institutions. This year's findings contribute to a body of data that spans nearly two decades, making it possible to track changes in corporate governance. An analysis of these findings reveals 10 emerging trends that will help shape board agendas for the 1990s.

Trend One. Corporate survival has become a primary goal of the board. In a question asked for the first time this year, we sought CEOs' opinions about their board's responsibilities in "ensuring long-term corporate survival." Corporate survival is considered important or extremely important by 86 percent of the responding CEOs. Unquestionably, the response reflects the critical nature of issues confronting U.S. companies at this juncture in history, with competition from Asia and Europe accelerating at an extraordinary pace. Boards increasingly will be called upon to assist companies in developing strategies to compete in a global economy.

Trend Two. Future boards will assume a more international perspective by adding directors who are non-U.S. nationals and forming international advisory boards. More Europeans and Asians will sit on U.S. boards. Twenty-one percent of the \$5 billion-and-over firms—companies that tend to set the pace for board innovation—reported they have established international advisory boards. This no doubt reflects the demands of a changing world economy with international markets eclipsing domestic.

Two-thirds of the CEOs polled this year believe a director with international experience would be an asset to the board. Of these executives, 46 percent list Europe as a geographic area in which they would benefit from board expertise—followed by Canada at 14 percent. Few respondents identified Japan (eight percent) or other countries of the Pacific Rim (six percent) for board expertise. This may reflect myopic views of the impact of these markets on the United States, as well as the fact that many Americans tend to be more comfortable with other Western cultures.

Trend Three. Director compensation will continue to climb. The Korn/Ferry Board Study has tracked consistent compensation increases during the past decade as companies demonstrated they are willing to pay for quality directors. During the past five years, compensation has risen 27 percent—from \$19,544 to \$24,729—acknowledging the increasing responsibilities and commitment required of board members. Forty percent of the companies surveyed report they raised compensation in the past year by about eight percent.

Trend Four. Directors increasingly will be expected to own a stake in the companies they serve. Ninety-one percent of the CEOs this year said directors should own company stock, up from 81 percent a year ago. And 24 percent of the companies report they have set up stock option plans—up from 16 percent last year and just three percent five years ago. Nearly three-quarters of the respondents—and 87 percent of the \$5 billion-and-over companies—report that all of their directors own stock.

Trend Five. The number of insiders on boards will drop even further, from three to two in the next decade. Increasingly, the CEO and COO will be the only insiders on the board. Ten years ago we predicted that outside directors would become a major force in corporate governance. Clearly, that is the case today. CEOs this year report their boards are composed of an average of 10 outside directors and three directors from inside the company, compared with five insiders and eight outside directors in 1975.

Trend Six. Boards will increasingly protect the interests of nonshareholder constituents such as employees, communities and environmental groups. A third of the states already have enacted laws that support directors in considering such stakeholders. While CEOs still overwhelmingly consider shareholders their primary constituency, outside directors have become much more sensitive to the needs of other groups, and their majority voice on the boards will carry more weight.

Trend Seven. Directors will not be automatically reelected. One-third of CEOs believe that outside directors should be formally evaluated, and 94 percent favor asking for the resignation of directors who do not measure up to their standards. Over the next decade, as major shareholders take a more active role in corporate governance, proxy contests will also result in higher director turnover, especially at larger corporations. And more boards will seat directors from large institutional investors, who are already seeking representation to safeguard their substantial investments.

Trend Eight. Directors will serve on fewer boards. In the past, directors have been faulted for sitting on too many boards to render significant service to a company. The CEOs surveyed, however, appear to take board memberships seriously. There was almost unanimous agreement that CEOs should limit their directorships to three boards. More than half the CEOs have turned down an invitation to sit on a board during the past year. Board members apparently recognize that they cannot exercise greater leadership if sitting on too many boards.

Trend Nine. Future boards will be smaller, more flexible and better managed, with directors having greater interaction as they work together as a team. Corporate directors will work more closely together in the future as they assert leadership in corporate affairs. Nearly three-quarters of the companies surveyed pay fees for meetings held via teleconferencing and video-conferencing calls—allowing board members to meet more frequently and to have greater contact with one another. The average number of meetings rose to nine this year, indicating a concern with keeping a closer and more active involvement in the governance of companies on whose boards directors serve. The time devoted to board business annually (94 hours) is down 20 hours from five years ago. We believe that today's directors

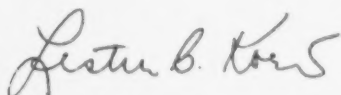
are able to do a better job in less time through more efficient use of committees as well as more frequent contact with the CEO. A majority of CEOs report they consult with directors either "frequently" or "regularly" between meetings, most often about acquisitions and financial issues.

Finding qualified directors—particularly with business leaders limiting the number of boards they sit on—will be more difficult in the future; this phenomenon will tend to encourage companies to maintain smaller and more manageable boards.

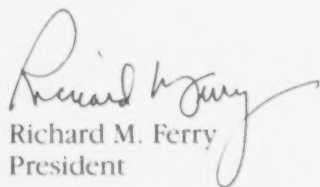
Trend Ten. An increasing number of directors will come from the ranks of retired CEOs. Directors continue to be drawn primarily from two sources: chief executive and chief operating officers of other companies (80 percent) and retired executives (64 percent). Given the pressures of these posts, retired executives will be an important source of qualified board members in the future, particularly as the U.S. population ages. The talent available in the pool of retired executives will rise dramatically in coming years.

These trends suggest that the role of corporate boards will continue to expand and mature in the years ahead. Given the potential for offering objective counsel and wide expertise, corporate directors can be an invaluable resource for U.S. companies during a time of unprecedented political and economic change in our world community.

Sincerely,



Lester B. Korn
Chairman



Richard M. Ferry
President

March 1990

SUMMARY OF FINDINGS—SEVENTEENTH ANNUAL STUDY

On a question-by-question basis, the following are the key findings of the Korn/Ferry International Seventeenth Annual Board of Directors Study.

Size of Board (Table 1)

Corporate boards, on average, seat 13 directors, the same as reported last year, but a decrease in size from the average of 14 reported in 1985. Board size varies with type of business and company size. The largest boards are found among banks and other financial institutions, which now average 18 members, up from the 17 reported last year, although a decline from the 20 members reported five years ago. Smaller companies with revenues of under \$400 million have an average of 10 board members, whereas \$5 billion-and-over industrials report 14 members.

When asked to conjecture on the size of the board in five years, 13 percent of the CEOs said they believe the number will decrease, 25 percent felt it would increase, and the majority, 62 percent, believe the number of board members will remain the same.

Inside Directors vs. Outside Directors (Table 1)

Respondents continue to report an average of three inside directors and 10 outside directors. In 1985, while the number of outside directors was also reported at 10, inside members averaged four.

Is the Chairman also the CEO? Is the CEO also the COO? (Table 2)

Seventy-nine percent of this year's respondents report that their chairman is also the chief executive officer, down from 84 percent last year and 80 percent in 1985. This combination of responsibilities occurs most frequently in the largest companies, \$5 billion and over (92 percent), and among banks and other financial institutions (87 percent). Seventy-seven percent of the chief executive officers surveyed see no advantage to separating the chairman and CEO function.

Thirty-eight percent of the respondents report that their chief executive officer is also their chief operating officer, the same as reported last year.

Board Composition (Table 3)

Directors are drawn primarily from two sources: chief executive and chief operating officers of other companies, at 80 percent and retired executives of other companies, at 64 percent.

Directors from these sources are even more predominant on the boards of billion dollar companies, 85 percent of which include at least one CEO/COO of another company, and 67 percent of which include at

least one retired executive from another company. For all boards, the prevalence of retired corporate officers and attorneys who provide legal services has increased since 1988.

Representation of women rose slightly, from 58 percent last year to 59 percent in 1989. This is well above the 45 percent reported by the board five years ago.

The number of boards seating an ethnic minority director dipped to 32 percent from the 33 percent reported in 1988, but is still higher than the 25 percent of five years ago (Table 3A). Both women and ethnic minority directors come primarily from the ranks of academia and CEOs/COOs of other companies (Table 3B).

As in 1986 and 1987, insurance companies report the highest number of women directors on their boards (72 percent), followed by the largest industrials, \$5 billion and over (69 percent). As in the past, the boards of banks and other financial institutions seat the greatest number of ethnic minorities (48 percent).

Sixty-five percent of all respondents think a director with international experience would be an asset to the board. Europe was most often cited as the area in which expertise would be most valued. Other areas mentioned were Canada, the Soviet Union, Japan and the rest of the Pacific Rim (Table 3C).

Only six percent of all respondents but 21 percent of the \$5 billion-and-over industrials currently have an international advisory board. Five percent are considering establishing one.

Eighty-two percent of participants are satisfied with the present composition of their board. Of the 18 percent who are not satisfied, 48 percent said they desired additional experience in marketing, 43 percent in finance and 33 percent in their specific industry (Table 3D).

Committees (Table 4)

The most prevalent standing committees in use remain audit (97 percent), compensation/benefits (91 percent), executive (74 percent) and nominating (57 percent) (Table 4A). Respondents also ranked these committees most important.

The use of executive and nominating committees is closely correlated to company size. For example, the executive committee is less prevalent in smaller industrials with revenues under \$400 million—52 percent, compared with the 77 percent reported by the largest industrials, \$5 billion and over. And while 74 percent of the \$5 billion-and-over industrials report a nominating committee, only 50 percent of the smaller industrials do so.

Committee composition averaged between five and seven directors. The compensation/benefits committee assigned two inside members, up from zero both last year and five years ago. Compared with 1988 and 1985, the average number of outside directors increased by one for the audit and finance committees. The audit committee is composed entirely of outside directors (Table 4B).

In 1989, the number of committee meetings per year ranged from two to seven. Executive committees met most frequently, seven times, up from four in 1985 and five in 1988, followed by the finance committee with six meetings, the same as last year. The nominating committee held the fewest number of meetings, at two per year (Table 4C).

In 56 percent of the cases, the chairman of the board also acts as the chairman of a committee. Of the 56 percent, 82 percent act in that capacity for the executive committee.

Compensation (Table 5)

As they have been since our study began, directors are primarily paid on an annual plus per-meeting fee basis; 88 percent of this year's respondents use this method of compensation. Nine percent of the respondents compensate their directors with an annual fee only. At three percent, the per-meeting fee only continues to be the most infrequent mode of compensation (Table 5A).

Annual Plus Per-Meeting Fee (88 percent of the respondents)

Fees for outside directors compensated on an annual plus per-meeting fee basis rose an average of eight percent, from \$22,875 last year to \$24,729 this year. Compensation has risen 27 percent from the \$19,544 average five years ago, and the percentage of those earning \$25,000 and over has nearly doubled, from 24 percent in 1985 to 47 percent this year. Commensurately, the percentage of directors earning under \$14,000 has decreased substantially, to six percent from 22 percent five years ago (Table 5B).

The \$24,729 total average annual compensation includes an average annual fee of \$17,824 and a per-meeting fee of \$986, up from the \$13,629 annual fee and \$834 per-meeting fee reported five years ago.

As would be expected, the larger the company, the higher the compensation. Directors of billion dollar industrial and service corporations earned an average of \$27,862, while directors of \$5 billion-and-over companies earned \$32,512.

The upper quartile average for all participants was \$35,426, nine percent greater than the \$32,445 reported last year (Table 5C). The average upper quartile for billion dollar companies was \$37,935.

Annual Fee Only (Nine percent of the respondents)

Among the companies that pay their outside directors an annual fee only, average compensation rose to \$24,900, up nine percent from last year and up 38 percent from the \$17,982 reported five years ago.

Per-Meeting Fee Only (Three percent of the respondents)

The smallest category, respondents who compensate their directors for meetings only, reported an average per-meeting fee of \$716.

Committee Compensation (Table 6)

Eighty-seven percent of all participants offer additional compensation to their outside directors for committee service, and 56 percent pay an extra stipend for chairing a committee. As expected, fees were higher for committee chairmen than for members (Table 6A). As in 1988, banks and other financial institutions paid the lowest per-meeting fee for committee service, and retailers the highest.

Fifty-nine percent of directors are also paid for serving on special ad-hoc committees.

Total Annual Compensation

Including committee fees, the average total compensation for outside directors was reported at \$29,863. The larger the company, the higher the compensation. Directors of the smaller industrials, those with revenues under \$400 million, earned an average total compensation of \$23,946, a 30 percent increase over last year's average of \$18,370. Conversely, directors of billion dollar corporations earned an average of \$34,424, up from \$32,771 last year. Directors of the \$5 billion-and-over companies received an average of \$41,200.

The upper quartile average for all responding directors was \$45,200. The average for billion dollar-plus companies was \$50,861, and for the \$5 billion-and-over companies, \$58,183 (Table 6B).

Additional Compensation Information (Table 7)

Forty percent of the corporations surveyed increased compensation for their outside directors during the past year, up slightly from 38 percent in 1988. This percentage is considerably higher than the 23 percent who predicted such a fee increase last year. Companies that raised fees did so by an average of \$3,190 for the annual retainer and \$251 in per-meeting fees. Last year, total compensation increased by an average of \$3,659, and five years ago, by an average of \$2,777. As in the past, \$5 billion-and-over industrials led, with a \$5,556 annual raise and a per-meeting fee increase of \$375, while retailers posted the smallest increase, at \$2,000 annually (Table 7A).

Ninety percent of this year's participants believe that outside directors are adequately compensated for board services, about the same as last year.

Up slightly from last year, 74 percent of all participants and 81 percent of billion dollar companies compensate their outside directors for teleconference calls. Of the 74 percent who received such payment, the average compensation was \$809 per call for all companies, and \$845 for the billion dollar firms.

In 1989, the highest paid outside directors earned an average \$34,382 for all board services exclusive of any consulting arrangements. This represents a three percent increase over last year's average of \$33,379 and 25 percent more than the \$27,424 paid five years ago. The highest paid directors at the billion dollar firms earned \$39,869; at \$5 billion-and-over companies, \$51,733. The upper quartile average for all directors is \$55,168, up from \$41,539 five years ago (Table 7B).

Benefits

Compensation plans for outside directors continue to include additional benefits, such as accident insurance (41 percent), travel expenses for spouse (28 percent) and life insurance (23 percent). The matching of educational gifts remains popular, and was offered at 51 percent of the companies, the same as last year. Travel expense reimbursement was provided by 90 percent of the respondents, down slightly from last year's 93 percent and 96 percent in 1985. The practice of providing directors' liability insurance rose to 96 percent, up from 93 percent five years ago.

The option of deferring board fees until after retirement is offered by a majority of the respondents, 67 percent. This figure has remained steady for the past five years (Table 7C). There is a direct correlation between company size and fee deferral. Only 46 percent of the industrials with revenues under \$400 million have an income deferral plan, while 85 percent of the \$5 billion-and-over companies offer one, up from 37 percent and 76 percent, respectively, in 1988. The practice of deferring board fees is least common among retailers.

Forty-one percent of all respondents provide a pension/retirement plan for board members, up from 39 percent last year (Table 7C). Fifty-four percent of the billion dollar corporations included retirement programs in their benefits packages, compared with 27 percent of companies with revenues under \$400 million.

In 1989, 24 percent of all respondents provided stock options for their outside directors, up from 16 percent in 1988 and three percent five years ago. Fifty-one percent of the CEOs are in favor of providing this benefit for their outside directors, up from 43 percent last year. Of

those who favor granting these options, 86 percent believe they help to align directors' interests with those of stockholders.

Ninety-one percent of all respondents and 93 percent of billion dollar companies believe that all directors should own some company stock, up from 81 percent and 89 percent, respectively, last year. Five years ago, 75 percent of the respondents stated that all directors should also be stockholders. In 1989, the average minimum number of shares recommended was 896, a dip from the 1,064 suggested last year but up from 765 shares in 1987. Seventy-four percent of all the respondents and 87 percent of the \$5 billion-and-over participants reported that all of their directors do own stock in the company.

Liability Insurance

Ninety-six percent of all respondents currently have directors' liability insurance, up from 90 percent in 1988. Of the companies whose insurance policies were up for renewal in 1989, only 19 percent said that directors' liability insurance premiums increased (Table 7D). This figure has been declining sharply since 1986, when a record 82 percent reported premium increases. Premiums that did increase rose by an average of only 41 percent, down from 124 percent last year and compared with 362 percent in 1985. The highest premium increase, 129 percent, was reported by banks and other financial institutions.

Eleven percent of all respondents have opted for self-insurance, down from 15 percent last year. Eighty-five percent of the boards have approved a measure to limit the liability of outside directors, up from 72 percent last year.

Board Practices and Policies (Table 8)

After 12 consecutive years of respondents averaging eight annual board meetings, this year's average rose to nine meetings (Table 8A).

Outside directors spent an average of 94 hours on board-related business (including time for meetings and preparation), down from 108 hours in 1988 and 114 hours five years ago. Board time commitment continues to decline from the high of 125 hours reported in 1983.

Once again, there is a correlation between company size and time spent on board matters. While directors of industrials with revenues under \$400 million averaged only 80 hours per year, directors of the billion dollar companies devoted an average of 104 hours to board-related business (Table 8B).

Predictably, chairmen spend considerably more time on board duties than do directors. They devoted an average of 162 hours to board business in 1989, about the same as reported last year. Chairmen of the industrial companies with revenues under \$400 million again reported a

low of 133 hours. The billion dollar-plus corporate chairmen spent an average of 164 hours, down slightly from 169 hours reported last year.

If compensated on an annual plus per-meeting fee basis, outside directors earned an average of \$263 per hour this year, up sharply from \$212 in 1988 and \$173 five years ago. The highest hourly rate, \$313, went to directors of insurance companies, who in the past received among the lowest hourly rates. This year, as in 1987, service companies paid the lowest, \$234 per hour, although this is an increase from last year's hourly rate of \$219. Hourly rates for all outside directors in 1989 continued to increase, as total compensation for the year rose while the average number of hours devoted to board activities once again declined.

With committee fees taken into account, the overall average hourly rate for outside directors was \$318, up from \$261 in 1988.

Forty-two percent of the participating chief executive officers and 51 percent of the billion dollar CEOs occasionally confer with their directors outside of board meetings. Thirty-six percent of all board chairmen frequently confer with directors, while 22 percent do so on a regular basis. Topics include financial issues and acquisitions (discussed by 57 percent of the respondents), changes in senior management (52 percent) and operating issues (42 percent).

Locating Outside Directors (Table 9)

Twenty-five percent of this year's respondents reported the resignation of outside directors within the past year, compared with 32 percent five years ago. At 36 percent, retailers had the highest percentage of outside director resignations, followed closely by banks and other financial institutions at 35 percent and insurance firms at 34 percent. Asked the reason for resignation, 23 percent cited time demands, up from 16 percent in 1985. Sixteen percent of the directors who resigned this year did so because of retirement, a decrease from 33 percent last year and 55 percent five years ago. Sixty-five percent of all responding companies and 76 percent of the largest industrials have replaced or intend to replace all directors who retired or resigned in 1989, about the same as last year.

Forty-six percent of all respondents expect a board vacancy in 1990, compared with 49 percent who expected one in 1989.

To fill board vacancies, the respondents continue to rely predominantly on the traditional methods: recommendations of the chairman (74 percent) and other board members (70 percent). Use of the nominating committee remains strong; 55 percent reported its use this year, compared with 51 percent last year. This percentage has been fluctuating, as five years ago 64 percent of the respondents employed the nominating committee.

Dependence on recommendations of other corporate officers, at 31 percent, continues to decline. Use of executive search firms to locate directors remains strong, with 16 percent of the total respondents now using such services, compared with 11 percent five years ago (Table 9A). Of the billion dollar industrials, 18 percent used executive search to locate new directors, up from 15 percent in 1985.

Twenty-five percent of the responding companies reported that prospective board directors declined invitations to serve on their boards in the past year, up from 23 percent in 1988 and 20 percent in 1985. Of the total respondents, 62 percent experienced one refusal, 32 percent had two, and six percent reported three or more. At 29 percent, billion dollar corporations and insurance firms most frequently experienced refusals.

As with resignations, time commitment is the predominant reason given for declining an invitation to serve on a corporate board (67 percent), although less of a factor than last year, when it was the primary cause for 78 percent. Serving on too many boards (37 percent) and a conflict of interest (25 percent) were also common reasons (Table 9B).

In 1989, average tenure for directors was nine years, down from 11 years in 1988. Thirty-three percent of the respondents believe there should be a limit to a director's term of service.

The average age of the CEO dipped from 57 to 56. Outside directors average 54 years of age.

Board Functions

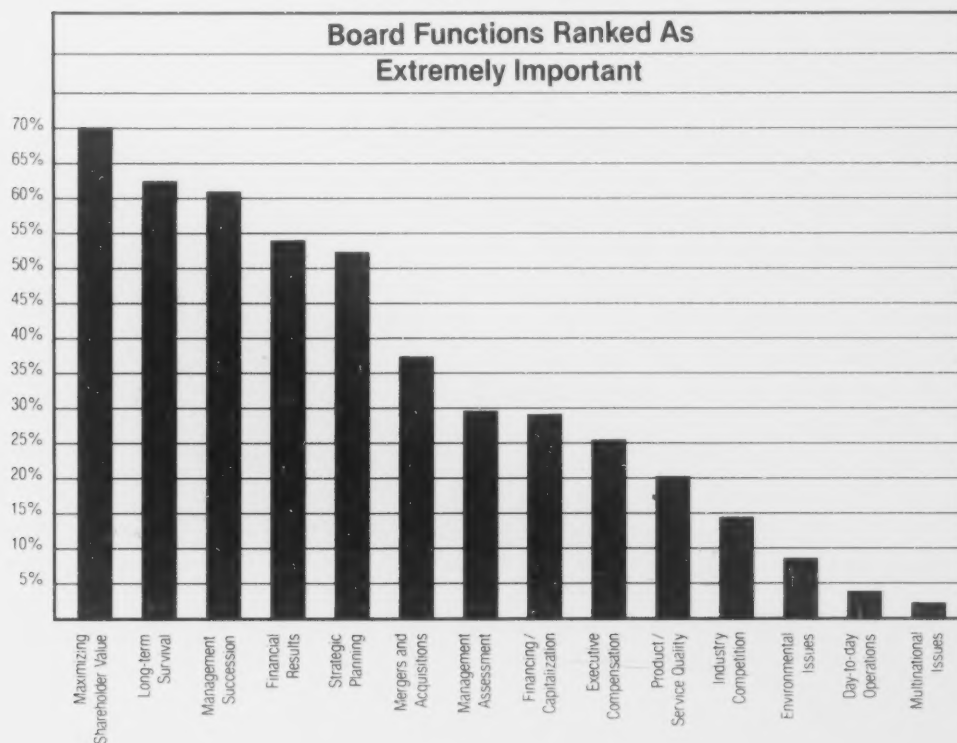
The chief executive officers of our responding companies ranked maximizing shareholder value as the most important board function. Seventy percent of all participants and 74 percent of the billion dollar firms cited this issue as extremely important.

Management succession and long-term corporate survival were the next most important issues, considered extremely important by 61 percent and 63 percent, respectively.

Larger companies are more concerned than smaller ones with strategic planning: 63 percent of the billion dollar industrials cited it as an extremely important board function, while 49 percent of the smallest industrials did so. Conversely, smaller companies are more concerned with financial results and industry competition. Whereas 67 percent of

the under \$400 million industrials ranked financial results as extremely important, only 54 percent of the overall respondents and 46 percent of the largest industrials (\$5 billion and over) did so.

Boards remain unconcerned with day-to-day operations. Sixty-four percent ranked this issue of little importance.



CEOs ranked long-term survival as second only to maximizing shareholder value.

Participating Companies (Table 10)

- Size of Participating Companies (Table 10A)
- Stock Exchange of Participating Companies (Table 10B)
- Type of Participating Companies (Table 10C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS**What is the present number of board members?**

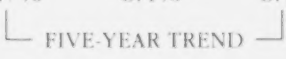
Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under \$400 million	3	7	10
\$400 million-\$599 million	3	9	12
\$600 million-\$999 million	3	8	11
\$1 billion-\$2,999 billion	3	9	12
\$3 billion-\$4,999 billion	3	10	13
\$5 billion and over	4	10	14
Banks and other financial institutions ..	4	14	18
Insurance companies	3	12	15
Retailers	3	9	12
Service companies	3	9	12
Average	3	10	13

TABLE 2—CHAIRMAN ALSO CEO, CEO ALSO COO
Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% Chairman/CEO	% CEO/COO
Yes	78.6%	38.1%
No	21.4%	61.9%
TOTAL	100.0%	100.0%

TABLE 3—BOARD COMPOSITION**3A. Are one or more of the following individuals on the board?**

	% 1985	% 1988	% 1989
CEO/COO of other companies	na	83.4%	79.5%
Retired executive (other companies) . . .	68.2%	67.2%	64.1%
Woman	45.0%	57.7%	59.1%
Academician	54.5%	52.4%	55.4%
Retired corporate officer	46.4%	43.3%	47.0%
Senior executive (other companies)	81.8% *	40.8%	39.5%
Attorney (does not provide legal services for the company)	31.5%	35.3%	33.5%
Ethnic minority member	25.4%	33.2%	31.6%
Former government official	29.6%	29.6%	27.7%
"Professional" director	28.2%	25.7%	27.0%
Attorney (provides legal services for the company)	24.9%	19.4%	25.8%
Major shareholder (not officer of the company)	29.4%	26.0%	24.1%
Investment banker	24.2%	23.9%	22.9%
Commercial banker	30.8%	26.0%	22.7%
Non-U.S. citizen	14.0%	10.7%	12.0%
International executive (U.S. citizen) . . .	8.7%	6.4%	6.7%


 FIVE-YEAR TREND
3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	28.9%	34.4%
CEOs/COOs of other companies	20.6%	20.6%
Attorneys (do not provide legal services)	8.3%	15.3%
Senior executives (other companies) . . .	16.5%	14.5%
"Professional" directors	13.3%	6.9%
Former government officials	11.9%	6.1%
Major shareholders (not officers of the company)	4.6%	1.5%
Retired executives	6.9%	1.5%

*Not comparable. 1985 percentage included CEOs/COOs of other companies. This became a separate category in 1986.

3C. Would a director with international experience be a valuable asset to your board?

	%
Yes	64.8%
No	35.2%
TOTAL	100.0%

If yes, from which geographic areas?

	%
Europe	45.8%
Canada	13.7%
Soviet Union	8.2%
Japan	7.5%
Pacific Rim	5.8%
Eastern Europe	2.9%
Mideast	2.9%

3D. Are you satisfied with the present composition of your board?

	%
Yes	82.2%
No	17.8%
TOTAL	100.0%

If not, what kind of additional experience would you include?

	%
Marketing	47.8%
Finance	43.3%
Industry specific	32.8%
Technology	26.9%
Government	20.9%
Mergers/Acquisitions	19.4%
Human resources	6.0%
Public relations	6.0%
Crisis management/Turnaround	3.0%

TABLE 4--COMMITTEES

4A. Which of the following standing committees does the board have?

	% 1985	% 1988	% 1989
Audit	97.2%	97.7%	96.6%
Compensation/Benefits	82.2%	89.1%	91.1%
Executive	78.2%	77.0%	73.5%
Nominating	59.2%	60.4%	57.3%
Finance	38.2%	38.4%	33.5%
Public affairs	10.6%	10.5%	11.3%
Corporate ethics	5.9%	8.2%	7.0%
Science/Technology	2.4%	4.8%	3.1%

└ FIVE-YEAR TREND ┐

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Compensation/Benefits	2	4	6
Executive	2	4	6
Nominating	1	4	5
Finance	2	5	7
Public affairs	2	5	7
Corporate ethics	1	4	5
Science/Technology	1	4	5

4C. How many committee meetings were held during the past 12 months?

Committee	1985 Average Number of Meetings	1988 Average Number of Meetings	1989 Average Number of Meetings
Audit	3	4	4
Compensation/Benefits	4	4	4
Executive	4	5	7
Nominating	2	2	2
Finance	5	6	6
Public affairs	3	3	3
Corporate ethics	2	2	3
Science/Technology	2	3	4

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TABLE 5—COMPENSATION**5A. How are board members compensated?**

Compensation	% 1985	% 1988	% 1989
Annual plus per-meeting fee (see Table 5B and 5C for amounts)	85.6%	88.3%	87.7%
Annual fee only	10.4%	10.5%	9.3%
Per-meeting fee only	1.9%	1.2%	3.0%
No response	2.1%	—	—
TOTAL	100.0%	100.0%	100.0%

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5B. Annual Plus Per-Meeting Fee

Total Average Annual Compensation	% 1985	% 1988	% 1989
Under \$7,000	2.3%	0.8%	0.3%
\$7,000-\$10,999	8.7%	2.5%	2.6%
\$11,000-\$13,999	11.3%	5.5%	3.2%
\$14,000-\$16,999	13.2%	12.8%	8.1%
\$17,000-\$19,999	15.5%	14.2%	13.0%
\$20,000-\$24,999	25.5%	24.6%	26.3%
\$25,000-\$29,999	23.5%	39.6%	21.1%
\$30,000 and over	na*	na*	25.4%
TOTAL	100.0%	100.0%	100.0%

Average Total Annual Compensation ... \$19,544 \$22,875 \$24,729

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*Included in \$25,000 and over category

**5C. Annual Plus Per-Meeting Fee
(continued)**

Type and Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
Industrials			
Under \$400 million	\$14,013	\$21,081	\$31,447
\$400 million-\$599 million	\$15,492	\$22,643	\$34,833
\$600 million-\$999 million	\$19,557	\$23,122	\$33,083
\$1 billion-\$2.999 billion	\$21,949	\$26,021	\$35,477
\$3 billion-\$4.999 billion	\$24,534	\$28,678	\$35,856
\$5 billion and over	\$26,126	\$32,512	\$42,300
Banks and other financial institutions	\$18,751	\$22,476	\$34,267
Insurance companies	\$17,462	\$24,423	\$33,500
Retailers	\$17,490	\$24,139	\$28,975
Service companies	\$22,141	\$23,628	\$33,565
Average	\$19,544	\$24,729	\$35,426

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TABLE 6—COMMITTEE COMPENSATION**6A. What is the average committee fee for outside directors?**

	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	\$758	\$3,757
Compensation/Benefits	\$756	\$3,427
Executive	\$756	\$5,091
Nominating	\$769	\$2,795
Finance	\$746	\$3,283

6B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1988 Average	1989 Average	1989 Upper Quartile
Industrials			
Under \$400 million	\$18,370	\$23,946	\$37,165
\$400 million-\$599 million	\$20,193	\$26,490	\$38,600
\$600 million-\$999 million	\$23,670	\$25,978	\$35,707
\$1 billion-\$2,999 billion	\$28,052	\$30,048	\$42,751
\$3 billion-\$4,999 billion	\$34,750	\$34,597	\$44,356
\$5 billion and over	\$40,597	\$41,200	\$58,183
Banks and other financial institutions ..	\$26,245	\$27,331	\$41,013
Insurance companies	\$26,342	\$31,300	\$49,625
Retailers	\$32,473	\$30,042	\$34,000
Service companies	\$30,188	\$29,816	\$45,741
Average	\$28,219	\$29,863	\$45,200

TABLE 7—ADDITIONAL COMPENSATION INFORMATION**7A. Has board compensation been raised within the last 12 months?**

	% 1988	% 1989
Yes	38.4%	40.2%
No	61.6%	59.8%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	Annual Retainer	Per-Meeting Fee
Industrials		
Under \$400 million	\$2,325	\$100
\$400 million-\$599 million	\$2,163	\$242
\$600 million-\$999 million	\$3,500	\$400
\$1 billion-\$2.999 billion	\$4,145	\$204
\$3 billion-\$4.999 billion	\$2,250	\$167
\$5 billion and over	\$5,556	\$375
Banks and other financial institutions ..	\$3,600	\$316
Insurance companies	\$2,800	\$170
Retailers	\$2,000	na
Service companies	\$2,209	\$223
Average	\$3,190	\$251

7B. How much did the highest paid director receive in 1989 for all board services exclusive of any consulting arrangement?

Type and Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
Industrials			
Under \$400 million	\$17,883	\$25,943	\$41,769
\$400 million-\$599 million	\$18,745	\$31,502	\$45,833
\$600 million-\$999 million	\$25,872	\$28,732	\$43,136
\$1 billion-\$2.999 billion	\$27,680	\$35,150	\$53,242
\$3 billion-\$4.999 billion	\$32,174	\$38,326	\$48,106
\$5 billion and over	\$42,468	\$51,733	\$83,783
Banks and other financial institutions ..	\$26,135	\$33,682	\$51,468
Insurance companies	\$27,878	\$37,621	\$66,043
Retailers	\$25,092	\$31,836	\$35,650
Service companies	\$27,176	\$32,616	\$52,918
Average	\$27,424	\$34,382	\$55,168

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7C. What benefits are included in the compensation plan for outside directors?

	% 1985	% 1988	\$ 1989
Directors' liability insurance	93.4%	90.2%	95.5%
Travel expense reimbursement	95.8%	92.5%	90.1%
Deferral of board fees until retirement ..	67.5%	67.4%	67.0%
Matching educational gifts program	50.3%	51.0%	51.3%
Accident insurance	48.6%	38.5%	41.2%
Pension/retirement income plan	25.8%	39.0%	40.7%
Travel expenses for spouse	27.2%	28.7%	28.2%
Stock options	3.1%	15.7%	23.9%
Life insurance	23.4%	21.0%	22.7%
Medical insurance	10.6%	12.1%	13.3%

7D. Have your directors' liability insurance premiums been increased?

	% 1988	% 1989
Yes	33.2%	18.9%
No	66.8%	81.1%
TOTAL	100.0%	100.0%

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	20.0%
5-6	30.2%
7-9	23.2%
10-12	25.4%
13 and over	1.2%
TOTAL	100.0%
Average	9 meetings

8B. How many hours (estimated) do directors spend annually on board activities including meetings and preparation?

Number of Hours	% 1988	% 1989
Under 40	3.7%	14.0%
40-70	29.3%	25.3%
71-100	27.3%	26.1%
101-130	18.7%	15.7%
131-160	9.4%	9.5%
161-190	5.9%	4.7%
191 and over	5.7%	4.7%
TOTAL	100.0%	100.0%
Average	108 hours	94 hours

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under \$400 million	80	129
\$400 million-\$599 million	96	177
\$600 million-\$999 million	92	171
\$1 billion-\$2,999 billion	94	193
\$3 billion-\$4,999 billion	109	160
\$5 billion and over	109	164
Banks and other financial institutions ..	87	154
Insurance companies	78	129
Retailers	84	145
Service companies	101	190
Average	94	166

TABLE 9—LOCATING OUTSIDE DIRECTORS

9A. How are outside directors located for the board?

	% 1985	% 1988	% 1989
Recommendation of chairman	81.3%	81.1%	73.7%
Recommendation of board members	77.3%	76.1%	70.4%
Nominating committee	63.7%	50.8%	54.9%
Recommendation by other corporate officers	37.4%	33.0%	30.6%
Executive search	10.9%	15.9%	15.9%
Referral from executive acquaintances ..	11.4%	9.8%	10.6%
Referral from attorneys	1.6%	2.5%	0.7%

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9B. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1985	% 1988	% 1989
Yes	20.4%	23.0%	24.9%
No	77.7%	77.0%	75.1%
No response	1.9%	—	—
TOTAL	100.0%	100.0%	100.0%

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If yes, what are the predominant reasons?

	% 1985	% 1988	% 1989
Time commitment	60.2%	78.1%	67.0%
On too many boards	28.8%	44.8%	37.1%
Conflict of interest	21.2%	18.8%	24.7%
Increasing legal liability	na	8.3%	5.2%

TABLE 10—PARTICIPATING COMPANIES

10A. Size of Participating Companies

	Number of Companies	%
Industrials		
Under \$400 million	46	10.8%
\$400 million-\$599 million	30	7.0%
\$600 million-\$999 million	37	8.7%
\$1 billion-\$2,999 billion	58	13.6%
\$3 billion-\$4,999 billion	11	2.6%
\$5 billion and over	43	10.1%
Banks and other financial institutions ..	58	13.6%
Insurance companies	42	9.9%
Retailers	14	3.3%
Service companies	87	20.4%
TOTAL	426	100.0%

10B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	69.2%
American Stock Exchange	5.4%
Over-the-counter	13.9%
Other (private, mutual)	11.5%
TOTAL	100.0%

10C. Type of Participating Companies*

	%
Industrials	52.8%
Banks and other financial institutions	13.6%
Insurance companies	9.9%
Retailers	3.3%
Service companies	20.4%
TOTAL	100.0%

**This year 1,000 companies were asked to participate. There were 426 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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